Canadian Income Taxation (Canadian) 19th edition Buckwold Test Bank

SKU: 9781259273094-TEST-BANK

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The manager at Big Company Corporation has decided to sell a piece of capital equipment after the company's year-end in order to avoid paying capital gains tax this year. Which tax planning method will the manager be using?
   A) This is a form of tax evasion and is not allowed.
   B) Converting the nature of income from one type to another.
   C) Shifting income from one time period to another.
   D) Transferring income to another entity.

   Answer: C

2) Which of the following scenarios illustrates a potential tax avoidance scheme?
   A) A man transfers property to his child at a value less than fair market value.
   B) Property transferred between arm's-length parties is valued at fair market value.
   C) A shareholder owns two corporations and undertakes legal steps in order to permit loss utilization between the two companies.
   D) Dividends received from shares transferred from a wife to her husband are taxed in the hands of the wife.

   Answer: A

3) The manager of Little Company Ltd. has decided to sell a piece of capital equipment after the company's year-end in order to avoid paying tax on capital gains this year. The manager is engaging in
   A) tax avoidance.
   B) tax evasion.
   C) GAAR.
   D) tax planning.

   Answer: D

4) Certain skills are necessary for successful tax planning. One of these skills is applying the time value of money. Which of the following is FALSE regarding this skill?
   A) If a taxpayer earns an annual return of 12% and is subject to a 40% tax rate, the annual after-tax return is 4.8%.
   B) If a taxpayer invests $1,000 at 8% and subsequently earns $48 in after-tax income on the investment at the end of the first year, the taxpayer's tax rate is 40%.
   C) Applying the time value of money is a tool used for wealth accumulation.
   D) If a taxpayer invests $1,000 for one year at a rate of return of 14% and is subject to a 45% tax rate, the after-tax value of the investment will be $1,077.

   Answer: A

Canadian Income Taxation (Canadian) 19th edition Buckwold Test Bank

5) Which of the following statements regarding GAAR is true?

A) The Canada Revenue Agency states that "A transaction will not be an avoidance transaction if the taxpayer establishes that it is undertaken primarily for bona fide business, investment or family purposes."

B) Individuals who organize their affairs in order to pay as little tax as possible will automatically be subject to GAAR.

C) When an avoidance transaction takes place, the anti-avoidance rule is automatically applied in all circumstances.

D) The purpose of GAAR is to catch tax evaders.

Answer: A

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

6) Steven James earned $150,000 this year in profits from his proprietorship, which placed him in a 45% tax bracket. The rate of tax for Canadian-controlled private corporations in his province is 15% on th first $500,000 of income. Personal tax rates (federal plus provincial) in James' province are:

On the first $45,000	24%
On the next $45,000	32%
On the next $50,000	40%
On the next $60,000	45%
On income over $200,000	50%

(*All rates are assumed for this question.*)

Steven withdraws $3,000 per month for his personal living expenses. All remaining profits are used t pay taxes and to expand the business. Steven expects the same business after-tax profits next year.

Steven is considering incorporating his business next year. If he incorporates, he will pay himself a gross salary of $48,000.

Required:

A. Determine the increase in Steven's cash flow if he incorporates his company? Show all calculations.
B. Name the type of tax planning that Steve would be engaging in if he incorporated his company.

Canadian Income Taxation (Canadian) 19th edition Buckwold Test Bank

Answer: A) Excess cash as a proprietorship:

Profits	$150,000
Tax: 24% 45,000 $10,800 32% 45,000 14,400 40% 50,000 20,000 45% 10,000 4,500 (Assume federal plus provincial rates)	(49,700)
	$100,300
Living expenses	(36,000)
Available for expansion	$64,300

Excess cash as a corporation:

Profits	$150,000
Salary	(48,000)
Corporate business profits	192,000
Tax: 15% / 102,000	(15,300)
Available for expansion	$86,700
Excess cash ($86,700 - $64,300)	$22,400

C) Transferring income from one entity to another

Canadian Income Taxation (Canadian) 19th edition Buckwold Test Bank

7) Part A: List the three key factors of cash flow.

Part B: List the six skills required for tax planning as suggested in the textbook.

Answer: Three key factors of cash flow

1. Amount of money coming in
2. Amount of money going out
3. Timing

Six skills required for tax planning

1. Anticipation
2. Flexibility
3. Speculation
4. Applying the 8th Wonder of the World
5. Perspective
6. Global approach

8) Andrew has $10,000 to invest. He wants to put his money into an investment earning an annual interest rate of 12%. Andrew is in a 42% tax bracket.

Required:

a) Calculate the value of Andrew's investment, after-tax, at the end of the year.
b) Calculate the amount of taxes Andrew will have to pay on his investment.

Answer: a) ($10,000 × 1.12) × (1 - .42) = $10,696
b) $10,000 × .12 × .42 = $504

Canadian Income Taxation (Canadian) 19th edition Buckwold Test Bank

9) Match each of the following terms with the most accurate example. Use each example only once.

TERMS:
Tax evasion
Tax planning
Tax avoidance

EXAMPLES:

A. An individual is seeking a beneficial outcome, and therefore, applies an application that is not specifically prohibited by law.
B. A business is seeking a beneficial outcome, and therefore, does not report a portion of revenue earned during the year.
C. Two unrelated companies take steps to become related in order to shift income from the profitable business to the company with losses.

Answer: An individual is seeking a beneficial outcome, and therefore, applies an application that is not specifically prohibited by law. **Tax planning**
A business is seeking a beneficial outcome, and therefore, does not report a portion of revenue earned during the year. **Tax evasion**
Two unrelated companies take steps to become related in order to shift income from the profitable business to the company with losses. **Tax avoidance**

10) For each of the examples listed below, state which of the following three categories of tax planning has been applied:

Shifting income from one time period to another

Shifting income from one entity to another

Shifting income from one type of income to another.

A. Jack has run a successful proprietorship for the past four years, and has now decided to incorporat his company.
B. Karen has decided not to pay herself a dividend from her corporation, (of which she is the sole shareholder), but has chosen to sell a portion of her shares to an associate instead.
C. XYZ Corporation has chosen to delay the recognition of a discretionary reserve until the following year.

Answer: A. Shifting income from one entity to another
B. Shifting income from one type of income to another
C. Shifting income from one time period to another

Canadian Income Taxation (Canadian) 19th edition Buckwold Test Bank